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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002232

SIPDIS

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STATE FOR WHA/CEN, WHA/EPSC, WHA/PPC, EB/OIA/IFD, EB/ESC
TREASURY FOR AFAIBISHENKO
COMMERCE FOR MSELIGMAN
STATE PASS AID (LAC/CAM)
STATE PASS USTR FOR ANDREA MALITO
SAN SALVADOR FOR COMMAT: NCHARLESPARKER

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TAGS: [EINV](#) [ETRD](#) [ECON](#) [EPET](#) [PGOV](#) [HO](#)
SUBJECT: HONDURAS: PRICE CONTROLS ON OIL AND CEMENT
CONTINUE TO CAUSE CONSTERNATION

REF: A. (A) TEGUC 2136 AND PREVIOUS (FUEL)
[1](#)B. (B) TEGUC 2127 (CEMENT)

Classified By: Ambassador Charles Ford for reasons 1.4(b,d)

[1](#)1. (SBU) Price controls -- existing or proposed -- continue to be a worrisome topic in Honduras, as recent developments leave both the private sector and the consuming public unsatisfied. In the last few days, talk has centered on challenging a private sector price increase in corn flour, a staple for many Hondurans. Building on other high-profile cases of GOH intervention in markets and prices, the public immediately clamored for at least an explanation if not a government-mandated rollback of this price increase. Minister of Commerce Elizabeth Azcona, in a correct if politically tone-deaf prescription, advised consumers that if they object to the price hike, they should buy a different product. In a separate remark that did little but make him look foolish, Vice Minister of Commerce Jorge Rosa said that the Ministry did not intend to take any action because its inspectors found no evidence of the alleged price hike in the markets and therefore could not verify it. (Note: The company, Maseca, had announced the price hike publicly, and, as one newspaper drolly pointed out, a single call to the company was sufficient to confirm the new price being charged. End note.)

[1](#)2. (C) Simultaneously the Ministry of Commerce continues to draw fire for its handling of the price controls being imposed on cement manufacturer Incehsa/LaFarge (ref B). That firm was forced earlier this month by the GOH to roll back prices, pending the results on an inquiry by an ad-hoc commission into what a "proper" price for cement would be. President of the private sector umbrella group COHEP and architect of the deal, Mario Canahauti, privately confided to EconChief that this commission was intended to be window dressing for a political settlement that would allow the firm to raise prices in January. However, things have not gone as planned, as construction and other groups have announced they will not accept any price increase, and the ad-hoc commission has thus far failed to reach a conclusion. Once it does, the commission's recommendation will be passed to President Jose Manuel "Mel" Zelaya Rosales, who according to Rosa, will have the final say on setting the price of cement. (Comment: It is important to note that while cement is a duopoly in Honduras that almost certainly deserves anti-trust oversight, the current commission is an ad-hoc, non-transparent affair that, by the admission of Vice Minister of Commerce Freddy

Cerrato, has no established methodology for determining if price manipulation is taking place. Honduras has taken some initial steps toward establishing a regular process of resolving antitrust-related issues through a competition commission, however, formation of that commission has been fraught with bureaucratic delays and insufficient funding. End Comment.)

13. (C) Finally this week, the GOH's year-long effort to control prices for gasoline and other petroleum-based fuels appears to be coming unraveled. Henry Arevalo, President of DIPPSA (a Honduran gasoline importer and marketer, and a leading bidder in the ongoing GOH plan to nationalize fuel imports and then award import contracts to one or more firms -- ref A) has publicly announced that in his view the fuel import bid solicitation has failed and should be vacated. The best bids, he points out, would yield a projected savings of less than 1.5 lempira (about USD 0.07) per gallon, less than the three to four lempira savings promised by Zelaya, and far short of the ten lempira savings the public expects.

14. (C) The GOH is concerned as well, as evidenced by Zelaya's reported decision to dispatch former Congressman and Presidential confidante Arturo Corrales to Miami to discuss alternatives with the U.S. oil companies (Esso and Texaco). The GOH continues to espouse market liberalization, though it has taken no steps in that direction -- in fact, the current proposal to nationalize and potentially monopolize the sector moves Honduras in the opposite direction.

15. (C) Comment: Declaring the bid process a failure and launching a new effort to liberalize the market would perhaps be a politically viable way out of this morass for Zelaya. Convincing the oil companies to play along will be difficult,

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though, since they have seen Zelaya was willing to destroy their market and even threaten expropriation of their assets, all under a plan that even GOH insiders admit makes no economic sense but is only being done because it is popular with voters. An even bigger obstacle to true liberalization will be opposition from gasoline station owners, many of whom are predicted to go out of business in a truly competitive market. Only if Zelaya demonstrates some political will in attacking this privileged group and its bloated profit margins will Post and the private sector begin to believe his rhetoric about liberalization. End Comment.

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